

The Moray Council

Report to those charged with governance

Annual Report to Members and the Controller of Audit for the year ended 31 March 2014

Government and
Public Sector

September 2014

Code of Audit Practice

In May 2011 Audit Scotland issued a revised version of the 'Code of Audit Practice'. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Code. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our audit plan to you in March 2014; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

We expect to be able to issue an **unqualified** audit opinion on the Statement of Accounts on 29 September 2014, subject to the completion of the matters detailed below.

The key outstanding matters are:

- approval of the Statement of Accounts and letters of representation; and
- completion procedures including subsequent events review.

The financial statements and supporting schedules were presented to us for audit within the agreed timetable, with the working papers provided being of a high standard. Overall we believe an efficient audit process was achieved and an effective working relationship has been developed between us and your officers.

Management responsibility

It is the responsibility of the Council and the Responsible Financial Officer to prepare the financial statements in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. This means:

- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- maintaining proper accounting records; and

- preparing financial statements timeously which give a true and fair view of the financial position of the Council and its expenditure and income for the year ending 31 March 2014 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code)

Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited:

- give a true and fair view of the financial position of the Council and its expenditure and income for the year;
- they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the information which comprises the annual report included with the financial statements is consistent with the financial statements

We are also required to review and report as necessary on other information published with the financial statements, including the explanatory forward, annual governance statement and the remuneration report.

Financial Statements

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2014 is **unqualified**, subject to the completion of the outstanding matters listed above.

We did not identify any financial adjustments during the audit of the financial statements for the year ended 31 March 2014. We did identify some disclosure amendments which have been processed by management.

Financial performance

In 2013/14, as recorded in the comprehensive income and expenditure statement, the Council spent £280.355million on the provision of public services. Income for the year totalled £291.136million, resulting in an accounting surplus of £10.781million. However, it is important to note that this surplus includes items of income and expenditure which are accounted for in order to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show

the impact on the Councils statutory reserves. Taking these adjustments into account, there was a reduction in the General Fund balance of £1.591million, as set out below:

Reduction in Devolved School Management Balances	(0.3)
Earmarked Reserves released to Scottish Government for Police and Fire Balances	(1.5)
Surplus Transferred into General Fund	0.2
	<u>£(1.6)million</u>

As highlighted above, the main reason for the decrease in the General Fund relates to the return of earmarked reserves to Scottish Government to account for Police and Fire balances. On 01 April 2013 Police and Fire services transferred to the Scottish Government and as such reserves relating to these bodies were also transferred. This transfer accounted for £1.5million of the overall decrease in general fund reserves.

The Housing Revenue Account generated a surplus of £11,000 in the year, increasing the Housing Revenue Account balance to £1.126 million. The overall movement in usable reserves was a reduction by £1.671million.

Budgetary Performance 2013/14

General Services

On 13 February 2013, the Council approved a break even budget of £189.8million for General Services in 2013/14, net of charges for services, contributions from other organisations and specific grants, to be funded from General Government Grant, Council Tax and use of reserves.

The net position at the year-end was a £2.9million underspend. The initial 2013/14 budget assumed that £2.7million would be transferred from general reserves; however, with a £2.9million underspend the closing position for the year was a transfer back of £0.2million (as per breakdown of general fund movement above).

Housing Revenue

The Council approved Housing Revenue Account expenditure of £15.1 million in 2013/14, to be funded from rents, government grant and other income. As shown in the Movement on the Housing Revenue Account Statement, there was a surplus for the year of £11,000.

Revenue budget for 2014/15

The Council set its budget for 2014/15 on 11 February 2014 of £199.483 million on a break even basis.

The General Revenue Grant from the Scottish Government, which includes a share of the money collected from businesses as non-domestic rates, amounts to 80% of the Council's net revenue expenditure. This key part of the Council's funding will increase by £1.7million compared to 2013/14. £1.5million of this increase is to cover new duties, largely those associated with the Children and Young People's Bill. Consequently the Council will have to absorb inflationary increases in costs as well as other budget pressures.

Further details of the Council's financial performance can be found within the *Financial Standing* section of this report.

We would like to take this opportunity to thank management and staff for their assistance and help during the audit process.

Please note that this report will be sent to Audit Scotland in accordance with the requirements of its standing guidance.

Audit approach

Overall Summary

Our approach to the audit of the financial statements was set out in our Audit Plan presented to you on 19 March 2014. The approach uses a range of techniques to obtain audit evidence and assurance and is based upon a thorough understanding of your activities. Our audit approach is risk based, informed by a good understanding of the operations of the Council and an assessment of the risks associated with the financial statements.

During the course of the audit, we have found no issues which have necessitated a change in our audit strategy as previously presented.

For all significant audit areas, we used a variety of audit techniques, including technology enabled audit techniques to drive quality and insight. We reviewed the accounting systems and management controls operated by the Council only to the extent we consider necessary for the effective performance of our audit. However, where we have uncovered any significant deficiencies we have reported these to you within our recommendations for improvement.

Approach to Significant Risks

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address them and an update on the outcome of our testing.

Our audit approach to significant risks

Risk	Categorisation	Audit approach	Outcome
Risk of Management Override of Controls	Significant	<p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>In any organisation, management may be in a position to override the financial controls that are in place. The current economic conditions may also increase fraud risk.</p> <p>In response to this risk we performed procedures to:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries using Computer Assisted Audit Techniques; • Test that expenditure had been recognised in the correct period; • Test the reasonableness of assumptions made by management in areas such as valuations applied to fixed assets, pensions and bad debt provisions' • review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • bring an element of 'unpredictability' into our work by testing balances below our materiality threshold. 	<p><i>We did not identify any issues to report to you as a result of our work.</i></p>

<p>Risk of fraud in revenue recognition</p>	<p>▶</p>	<p>Significant</p>	<p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Council could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position. We have considered this risk specific to housing revenue, cultural and related services and social work income. For all other revenue streams we have rebutted the risk of fraud in revenue recognition.</p> <p>In response to this risk we performed procedures to:</p> <ul style="list-style-type: none"> • obtain an understanding of key revenue controls; • evaluate and test the accounting policy for income recognition in relation to these income streams to ensure that it is consistent with the requirements of the Code; and • perform detailed testing of revenue transactions, focussing on the areas of greatest risk, including manual revenue journals 	<p><i>We did not identify any issues to report to you as a result of our work.</i></p>
<p>Risk of fraud in expenditure recognition</p>	<p>▶</p>	<p>Significant</p>	<p>For the purposes of the Council the risk of fraud in revenue recognition is also inverted to reflect the risk around misstatement of expenditure. In particular, management may face pressure to delivery within a reduced budget or conversely to utilise full budget allocations by year end. This may result in the misstatement of expenditure for the year.</p> <p>In response to this risk we performed procedures to:</p> <ul style="list-style-type: none"> • review the controls put in place by the Council to control expenditure, including performance monitoring against key financial targets. • test cut-off, accruals and unrecorded liabilities procedures to ensure that expenditure has been recognised in the correct period in relation to when services were delivered. We also performed testing on expenditure transactions, focussing on the areas we consider to be of greatest risk, including manual expenditure journals. 	<p><i>We did not identify any issues to report to you as a result of our work.</i></p>

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action and this report is part of that continuing communication with those charged with governance.

We have completed our audit, subject to the following outstanding matters:

- approval of the Statement of Accounts and letters of representation; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Financial Statements and their approval we expect to issue an **unqualified** audit opinion.

As part of our work on the Financial Statements we have also examined the Whole of Government Accounts schedules submitted to the Scottish Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Accounting issues

Pension assumptions

Employees of Moray Council participate in the North East Scotland Pension Fund which is a Local Government defined benefit pension scheme. A full actuarial valuation of the assets and liabilities of the Fund was carried out at 31 March 2011 and was updated at 31 March 2014 by Mercer (independent actuary). We understand that a full actuarial valuation based on data at 31 March 2014 will be performed in 2014.

During the year an amendment to IAS 19 became effective and has been adopted within the accounts for the year ended 31 March 2014. The effect of this amendment has resulted in the restatement of the 31 March 2013 comparative figures in the accounts. We have reviewed the adjustments and the disclosure of the prior year restatement and have no issues to raise.

We have independently confirmed the pension assets and accuracy of the census data held by the Pension Fund as part of our audit. We have also reviewed the key assumptions applied to the Pension Fund's valuation of its liabilities and compared these with our own actuarial specialists' expectations. This included benchmarking the assumptions against a range of other schemes with March year ends. None of the assumptions used fell out with our expected range.

Charitable Funds audit

For the first time in 2013/14 we are required as appointed auditors to provide an audit opinion on charitable Trusts registered with the Office of the Scottish Charities Regulator (OSCR) where the Council, or some members of the Council, act as sole Trustee. The Council currently acts as sole Trustee for 38 charitable trust funds.

Regulation 7 of The Charities Accounts (Scotland) Regulations permits charities that have a common purpose or shared management to prepare a single set of 'connected charities' accounts. In line with this guidance, and with the approval of OSCR, management has prepared a single set of connected charities accounts.

Guidance provided by OSCR states that those who have "general control and management" of the charity are the charity trustees. Decisions regarding the general control and management of the connected charity trust funds are made by the Policy and Resources Committee of the Council, which has delegated authority from the Council in this regard; but ultimately control rests with the full Council of elected members. We have therefore interpreted the above guidance as meaning all elected members are charity trustees.

We noted that the charitable activity across all 38 charitable trust funds is low. The only income stream is from investments and only 3 out of the 38 (8%) charitable trust funds have incurred any charitable expenditure in the year (totalling £6,000). With such a low level of activity it should be considered whether the connected charitable trust funds are in fact meeting their original objectives.

Trust deeds for only 16 of the 38 (42%) connected charitable trust funds were available for our review. The absence of such deeds which formally document the purpose of each of the Trusts creates the risk that funds could be expended for purposes that do not meet the charitable objects of the Trust. In addition, in the event of a challenge, the Trust may find it difficult to justify expenditure incurred.

Action Point 1: As sole trustee of the 38 of the connected charities, The Moray Council should liaise with the Office of the Scottish Charity Regulator (OSCR) to ascertain whether there is any possibility of rationalising the number of charities and agreeing their overall purpose. This would allow such funds that are available to be used for charitable purposes.

Misstatements and significant audit adjustments

We are required to tell you about all uncorrected misstatements we found during the audit, other than those which are clearly trivial.

We are pleased to advise that there are no uncorrected misstatements to report.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask Management to represent to us that the selection of, or changes to, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Management representations

The final draft of the representation letter that we ask Management to sign is attached in Appendix 2.

Governance and Internal Control

Governance structure

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility the Council has put in place arrangements for the governance of its affairs, through its sub-committees. The committee structure remained unchanged during 2013/14, with the exception of the creation of a Police and Fire and Rescue Services Committee. This was set up to consider local accountability issues following the introduction of the Scotland wide single services for police and fire

The Council and its sub-committees are governed by its Standing Orders, a Scheme of Delegation and its Financial Regulations, all of which were updated in 2013/14.

Statement of Governance and Internal Control

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. In its statement, the Council has outlined the processes it employed to identify and evaluate risks. In addition, key elements of the Council's control framework have been highlighted, along with a self-evaluation of developments and areas for further improvement. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Risk management

The Council has in place a Risk Management Strategy which is driven by the Council's objectives, supported by departmental/ service plan objectives. Risks are assessed at both the strategic and operational levels. The strategy outlines roles and responsibilities, the risk management principles adopted by the Council and the role of Internal Audit in tailoring its annual work plan to focus on the key areas of risk.

Operational risk registers are reviewed annually, with the corporate risk register considered every six months by the Corporate Management Team. It is then reported to the Policy and Resources Committee on the same timeframe. Risks are identified as falling within one of the following categories:

- Political;
- Financial;
- People;
- Regulatory;
- Environmental;
- Reputational;
- Operational Continuity and Performance; and
- IT

The corporate risk register was last updated in March 2014 and presented to Policy and Resources Committee in May 2014.

Action Point 2: Although our review of risk registers and reporting arrangements has not identified any issues, we note that the Risk Management Strategy was last updated in 2008. There is a risk therefore that the document does not reflect current practice within the Council.

Shared Risk Assessment

The Scottish Government's response to the Crerar report in 2007 was to simplify the approach to delivering local government scrutiny. As a result, scrutiny bodies that engage with local government established a shared risk assessment of the risks in each Council and developed a range of proportionate approaches in response to the risk assessment. A Local Area Network ("LAN") of local audit and inspection representatives undertake a shared risk assessment for each local authority in Scotland, to identify targeted, risk-based scrutiny. This results in each Council receiving an annual Assurance and Improvement Plan ("AIP").

In May 2014, Audit Scotland published the Council's most recent AIP. This makes reference to several areas of focus during 2013/14 and the outcome of work performed, including:

- In May 2013, the Accounts Commission published the findings of the Targeted Best Value audit which took place towards the end of 2012/13. These were largely positive for the Council and included evidence of improved political and officer leadership. The report also highlighted areas for improvement in relation to clarifying its strategic planning arrangements and developing a customer focused strategy.
- The Moray Community Planning Partnership (CPP) was selected for audit during 2013/14. The audit considered the vision and strategic direction of the CPP along with its governance and performance management arrangements and its use of resources. The outcome of this work was published by Audit Scotland in July 2014 and noted that the CPP has now established a clear strategy and has a good record of partnership working. The report notes that work needs

to continue to implement the proposed performance management framework of the CPP and align resources to its priorities.

Action Point 3: Management should develop an action plan for progressing the findings raised in the review of The Moray CPP. Progress against actions should be monitored and reported regularly.

Accounting systems and systems of internal control

Management is responsible for developing and implementing systems of internal financial control and for putting in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of the Council.

Internal audit

International Standard on Auditing (UK and Ireland) 610: “The auditor’s consideration of the internal audit function” requires us to perform the following:

- Consider the activities of Internal Audit and the extent that their work can be relied upon for external audit procedures;
- Obtain sufficient understanding of internal audit activities and the effectiveness of the function to enable us to identify areas of risk and develop an effective and targeted audit approach; and
- Evaluate and test the quality and timeliness of internal audit work, where we seek to rely on the findings, in order to confirm its adequacy for our purposes.

We have liaised with Internal Audit during our interim and final audit visits to review their programme of work for the current financial year and to establish progress against the internal audit plan. We have also reviewed a summary of their completed reports to determine the main issues being reported to ensure that our audit takes account of any specific risks issues identified.

As a result of the procedures performed, we have been able to rely on the work of Internal Audit in the following areas:

- Bus Service Operators grant claim; and
- Performance Indicators.

We also intend to rely on the work of Internal Audit to complete work on the following grant claims:

- Non Domestic Rates Income grant claim; and
- Housing Benefit Subsidy

We would like to take this opportunity to thank the Internal Audit Manager and the Internal Audit team for their assistance throughout the year.

Based on audit work performed we consider the Internal Audit function within the Council to be appropriate for the needs of the Council.

Summary of significant internal control deficiencies

We are required to report to you any significant deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

Deficiency	Recommendation
A lack of reconciliation between the Council's Council Tax and Non-Domestic Rate system and the Assessor's system since October 2012.	<p>Our work over Council Tax and Non-Domestic Rate income highlighted that there has been no reconciliation performed between the Council's systems for Council Tax and Non-Domestic Rates and the Assessor's system. A new system was implemented in October 2012 and software issues prevented this reconciliation taking place.</p> <p>The absence of such a reconciliation creates a risk that changes to the system in terms of additions and deletions of properties or changes to bandings may not be accurately reflected in both systems.</p> <p>We have performed testing to confirm that changes made to the Council's systems are reflected in the Assessor's systems. However, we do recommend that management should perform its own reconciliation at least on an annual basis.</p>

Action Point 4

Other matters

In December 2013 the Corporate Director (Environmental Services) retired. The role has been temporarily filled by the Head of Housing and Property. The Corporate Director (Education and Social Care) is also due to leave the Council in August 2014. Both Director posts have been advertised externally with appointments likely to be made in October 2014.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Annual Governance Statement. We consider that appropriate governance arrangements and reporting are in place.

Financial Standing

2013/14 Financial Performance

The Council achieved a surplus of £10.781 million on the provision of services in 2013/14, compared to £10.928 million in 2012/13 (restated). This surplus reflects the impact of a number of technical accounting adjustments and a more informative indication of the Council's performance in the year is reflected in the movement in the General Fund.

The Council's General Fund balance decreased by £1.591 million during 2013/14. The main reason for the decrease in the general fund relates to the release of earmarked reserves back to Scottish Government to take account of Police and Fire balances previously included within the Council's reserves. On 01 April 2013 Police and Fire services transferred to the Scottish Government and as such reserves relating to these bodies were also transferred in accordance with Scottish Government guidance. This transfer accounted for £1.5million of the decrease in general fund reserves.

The Council's General Fund and Housing Revenue Account financial performance for 2013/14 is summarised in the table below.

	2013/14 £000		2012/13 (restated) £000	
Net Cost of Services	194,885		205,180	
Taxation and Non-Specific Grant Income	222,249		231,170	
Other operating expenditure	525		813	
Other Income and Expenditure (Financing and Investment)	16,058		14,249	
(Surplus)/Deficit on Provision of Services	(10,781)		(10,928)	
	General Fund	HRA	General Fund	HRA
Surplus/(Deficit) on Provision of Services	14,101	(3,320)	20,148	(9,220)
Adjustments between accounting basis and funding basis under regulations.	(15,692)	(3,338)	(18,407)	9,215

Net Increase/(Decrease) before Transfers to Reserves	(1,591)	18	1,741	(5)
Transfers to/(from) Reserves	(8)	(7)	127	(7)
Increase/(Decrease) in Year	(1,599)	11	1868	(12)
Opening Balance	<u>22,980</u>	<u>1,115</u>	<u>21,112</u>	<u>1,127</u>
Closing Balance	<u>21,381</u>	<u>1,126</u>	<u>22,980</u>	<u>1,115</u>

The overall resource outturn for controllable expenditure in the year was an underspend of £2.247million. Key variances from budget were as follows:

General Services

On 13 February 2013, the Council approved a break even budget of £189.8 million for General Services in 2013/14, net of charges for services, contributions from other organisations and specific grants, to be funded from General Government Grant, Council Tax and use of reserves.

The net position at the year-end was that there was a £2.9million underspend. This was attributed to a number of over and underspends from budget, as follows:

Underspends/positive variance	£million	£million
Staffing	1.2	
Income received	0.4	
Council Tax Income	0.5	
Unused Funds from Devolved School Management Budgets (carried forward)	1.4	
Various other smaller budget variances	<u>2.1</u>	
		5.6
Overspends/negative variance		
Purchase and provision of social care	0.6	
Building Services	0.4	
Housing Benefits	0.4	
Various other smaller budget variance	<u>1.3</u>	
		<u>2.7</u>
Net Overall Positive Variance		2.9

Staff savings of £1.2 million arise from vacant posts, new appointments (starting at the lowest pay band) and people choosing not to join the pension scheme. Income received overall is above budget. Specifically charges and income for Catering, Cleaning and Waste collection are nearly £1.0 million over budget, partly offset by a decrease in Planning Fees and Building Standards Fees of £0.6 million for 2013/14. Growth in the number of dwellings paying Council Tax contributed £0.5 million to the Council's the surplus for the year. Out of Area placements and other intensive support packages for Looked After Children and the provision of social care for people with learning disabilities and the care for older people resulted in an overspend for the year of £0.6 million.

Housing Revenue

The Council approved expenditure of £15.1 million in 2013/14, to be funded from rents, government grant and other income. As shown in the Movement on the Housing Revenue Account Statement, there was a surplus of £11,000.

Within this outturn position there were a number of variances as follows: a £0.5 million overspend in response repairs and maintenance and void property repairs; increased capital funded from revenue of £0.3million offset by £0.4 million in reduced capital borrowing costs; £0.2 million saving in supervision and management costs; and £0.2million saving a reduction in the provision for bad/doubtful debts and increased house rental income.

It should be noted that the operational budget and actual outturn are calculated on a Service basis which reflects the Council's management structure whereas the figures reported in the Comprehensive Income and Expenditure Statement are calculated based on that prescribed by the Service Reporting Code of Practice (SeRCOP) and therefore the two are not directly comparable.

Savings

The Council is required to contribute annual savings towards the Scottish Government's Efficiency Targets. In 2013/14 the Council achieved £6.886 million of efficiency savings (2012/13 – £6.085 million). Key areas where savings were achieved centred on the following:

- **Designing Better Services (DBS)**

The Council is implementing DBS, a change programme with the vision to have Moray Council recognised as an exemplary, customer-focused authority, delivering services more effectively and efficiently. Total efficiency savings of £2.017million have been recognised in 2013/14 from the programme. Examples of the savings achieved include:

1. Efficiencies of £747,000 achieved from procurement activities such as improved tender and contract management, with the adoption of a number of national and local contracts;
2. The relocation of office staff in the year and rationalisation of office space has resulted in cash savings of £145,000 in the year and further efficiencies of £43,000; and

3. Transport and vehicle efficiencies of £183,000, arising from the introduction of pool cars for business travel and the reduction of the Council's fleet of vehicles, thereby reducing maintenance costs.

- **Asset Management**

The Council has a well-established process for disposing of surplus properties and these continued to generate capital receipts in the year, to the value of £748,000.

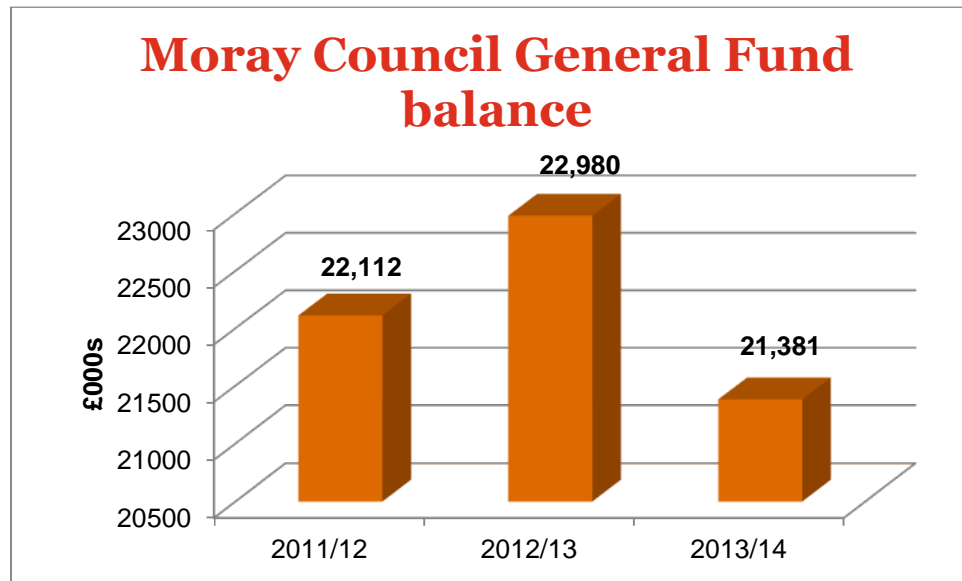
- **Improved Efficiency**

The areas of performance which can be quantified have shown efficiencies of £2.649million in the year. This includes savings as a result of:

1. A reduction in voids and hence a reduction in income lost;
2. The implementation of an improvement plan which has reduced housing tenant arrears; and
3. An increase in the levels of waste being recycled at no additional cost to services which resulted in a reduction in land fill tax paid.

Reserves

The Council has a general fund balance of £21.381million as at 31 March 2014, a decrease of £1.6million from the restated prior year. The movement in the general fund balance in recent years can be seen in the graph below.



As noted previously, the increase in the General Fund in 2012/13 was largely driven by a £1.546 million transfer of the Police and Fire Board reserves at 31st March 2013 following Police and Fire Reform (Scotland Act 2012) accounting. Guidance issued by the Scottish Government required the inclusion of the balance in local Council reserves as at 31 March 2013 with the Scottish Government deducting it from future Revenue Support Grant payments in 2013/14. This therefore increased the Council's General Fund Reserves as at 31 March 2013 and then subsequently reduced them in 2013/14.

Revenue budget 2014/15

The Council approved its 2014/15 revenue budget of £199.483million (2013/14 budget £189.8million) on 11 February 2014. As required, this budget was set on a break-even position. The 2014/15 budget is based on the following key assumptions:

Expenditure

- Provision has been made for anticipated inflation increases. COSLA has announced a 1% pay award for non-teaching staff for 2014/15 and the budget assumes a similar rise of 1% for teaching staff. A provision of £1.3million is included in the budget to accommodate this increase and also to account for the increase in the Scottish Local Government Living Wage to £7.65 per hour. The Scottish Local Government minimum wage matches that set by the Living Wage Foundation;
- Additions to the budget are also made in respect of new duties to the Council which will be funded through Scottish Government, totalling £1.471million. This primarily consists of the implementation of the Children and Young People Bill (estimated cost of £917,000 in 2014/15); and
- £3million has been allocated in the 2014/15 budget for specific budget pressures. These include unavoidable recurring costs such as the additional costs associated with an increasingly elderly population. Specific budget pressures have also been identified in relation to areas such as pension auto-enrolment (£130,000) and increased utility costs (£275,000).

Income

- £153.74million is anticipated in grants from the Scottish Government made up of general revenue grant and non-domestic rates distribution (£147.69million in 2013/14); and
- Council tax freeze for 2014/15, with an increase in bad debt provision from 1.5% of Council Tax due to 2%. Total Council Tax anticipated to be collected in 2014/15 is therefore £38.417million.

The Council estimated it is required to generate £6.764million of savings to balance the 2014/15 budget. £2.906million worth of savings have already been approved by Council and these relate primarily to realising the full year effect of savings made during 2013/14, such as a predicted saving of £300,000 from a reduced library service.

A further £2.156million of savings have been identified from the following areas, but have yet to be approved by Council:

Service	Proposed Saving £000
Roads Maintenance	977
Flood Risk Management	66
Waste Management	77
Development Services	12
Primary and Secondary Schools	175
Schools and Curriculum Development	51
Music Instruction and Visiting Specialists	26
ICT	15
Financial Services	152
Legal and Democratic Services	46
Corporate wide	275
Consequent on capital plan	284
TOTAL	2,156

The remaining balance to be found in 2014/15 (£2.262million) will be funded from reserves.

The Area Based Review Working Party has continued to meet during 2013/14 with a focus on developing a medium term Corporate Plan for the Council. This includes the Council's financial plan. In the year the Working Party reviewed all Council services to identify required savings which has informed the 2014/15 budget. They also conducted several strategic review over areas such as sustainable education and leisure.

Capital Expenditure

The Council had a general fund capital programme budget for 2013/14 of £48.548 million. At the start of the 2013/14 the initial budget position was £54.4million but during the course of the year this was revised to take into account identified projects with deferred or delayed expenditure. The 2013/14 actual expenditure was £46.745 million (2012/13: £39.176million), spent across the following projects:

Project	Capital Expenditure £'000
Flood Alleviation	29,705
Roads and Transport	7,614
Schools	3,516
Vehicles	1,665
Other Capital Expenditure	4,245
TOTAL	46,745

This capital expenditure was funded from a variety of sources as follows:

Source	Funding £'000
Prudential borrowing	13,034
General Capital Grant	32,410
Specific Capital Grant	540
Other capital receipts	761
TOTAL	46,745

The underspend of £1.8million in the year is primarily attributable to the flood alleviation programme. Built into each flood project budget is a 'risk allowance' which is based on the probability of adverse events which could have detrimental financial impact occurring. If these events do not occur the actual project costs will be lower than that budgeted, which is the key reason for the underspend during 2013/14.

There have also been underspends across other projects including the Harbour Wall project at Lossiemouth (£191,000 underspend), waste management capital expenditure (£222,000 underspend) and ICT projects (£84,000 underspend).

For 2014/15 the Council has set a budget of £54.402million towards capital expenditure and will progress its 10 year capital programme, in particular, improving the condition of schools and continuing work on flood alleviation.

Welfare Reform

In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012.

The Council has established a corporate Welfare Reforms Group specifically to consider the effects on services and to set out the actions required to mitigate the impact on the Council and communities. This group is led by the Corporate Director (Corporate Services) and includes representatives from housing, planning and economic development, finance and benefits. The Welfare Reforms Group also included the establishment of a Sub-Committee to make recommendations on further policy initiatives required. The Sub-Committee is to focus on the particular issues related to housing and Housing Benefits. Services will report action plans to their respective Committees to assess the potential impact of Welfare Reform on their respective customers and propose appropriate responses to meet their needs. The Corporate Director (Corporate Services) also chairs a Local Delivery Group with representatives from the Council, Department for Work and Pensions (Elgin Job Centre Plus), Citizens Advice Bureau and the Third Sector Interface which oversee the implementation of Welfare Reforms across Moray.

Developments during 2013/14

In October 2013 the Welfare Reforms group reported the progress of welfare reforms within the Council. This noted the implementation of significant changes including:

- Council Tax Reduction

From 01 April 2013, Council Tax Benefit, which was a UK wide social security benefit, was abolished and replaced in Scotland by the new Council Tax Reduction Scheme. All 7,360 customers of the Council who were in receipt of Council Tax Benefit on 31 March 2013 were successfully transferred over to the new system.

- Under-occupancy restrictions

From 01 April 2013, working age tenants of registered social landlords occupying a home larger than their requirements found their Housing Benefit restricted to a level that reflected a property of appropriate size. 914 tenants have been affected by this restriction in Moray (642 being council tenants and 272 being housing association tenants). The Council's Housing and Property Service carried out an exercise to visit all council tenants to provide information on the changes and provide advice on housing options.

- Discretionary Housing Payments

The Council had originally been allocated a Discretionary Housing Payment budget from UK Government of £68,980 for 2013/14. However, in the year additional funding was made available for rural communities and Moray was awarded a further £183,250. As a result, the Discretionary Housing Payment policy was reviewed in the year to take account the impact of welfare reforms and also the wider scope of the scheme which now allows for assistance with one-off rental costs such as rental deposits. Due to the under-occupancy restrictions imposed during 2013/14, the Council saw claims for Discretionary Housing Payments increase by 627% compared to the prior year.

The Welfare Reforms Group reports twice yearly to the Policy and Resource Committee and also the Communities Committee. In the reports presented to these groups, there is clear consideration of the implications of welfare reform in terms of policy, financial implications, risk management and staffing implications.

Financial standing

Based on our audit work performed, we have no concerns over the financial standing of the Council.

Best Value and Performance

Performance management

The Council monitors and reports against over 300 performance measures, being a mixture of local and statutory indicators. Performance reports are produced and published quarterly via the Council's website and are reported to service committees, Corporate Management Team and sub-committees of the Council either quarterly, half-yearly or yearly depending on the nature of the indicators being presented and the committee timetable.

We reviewed a sample of minutes across service committees and noted that there was discussion of both positive performance and areas for improvement based on the performance reports provided. We also noted instances where poor performing measures were followed up and reported separately to the relevant committee.

The reporting timetable is contained within the Council's Performance Management Framework which at the time of this report was in the process of being reviewed. The Framework also details the roles of service managers and committees in monitoring performance as well as the approach to performance management at a Corporate, Service and Partnership level.

Statutory Performance indicators

The Accounts Commission has a statutory responsibility to specify information that all Councils must publish about their performance in the form of statutory performance indicators. For 2013/14, the Accounts Commission required Councils to report on a wide range of indicators set out in the Local Government Benchmarking Framework (LGBF).

Auditors are required to review the arrangements in place for collecting, recording and publishing performance data. This is a two stage process involving both an assessment of the arrangements in place and assessment of the quality of information reported. Based on our work performed the Council was able to demonstrate the basis for the SPIs reported.

We identified the following issues in relation to the arrangements in place for gathering and reporting performance data:

- Although the Council maintains a database of performance information, the details of source data used in calculating each indicator are only held centrally for statutory indicators and within services for other indicators. We noted that at the end of 2013/14 the Council began a data reliability exercise which sought to validate the data submissions by services for local indicators. However, there is no plan or timetable in place for its completion. We understand that

due to resource constraints the commitment to a set timetable may not be currently feasible, but Management should consider whether this exercise is of sufficient priority to commit future resources to ensuring its completion. –

Action Point 5

- The Council sets itself a local target of publishing quarterly performance information 6 weeks after the quarter ends. We noted that for the 4 quarters of 2013/14 this information was not published until 7-8 weeks after the end of the quarter. The Council should consider the factors which are preventing this target from being achieved and assess whether it is still realistic/achievable. - ***Action Point 6***

National Performance Audits

On a periodic basis, Audit Scotland publishes National Performance Audit Reports on subject areas of relevance to local authorities. We have a duty to follow up with Councils on the extent to which they have considered and responded to relevant reports. Whilst some recommendations have a national application, there are many which can be implemented at a local level.

As part of our 2013/14 audit procedures we have reviewed the Council's response to the following reports:

Health inequalities in Scotland (December 2012);

The Audit and Performance Review Committee considered the health inequalities in Scotland (2012) report at its meeting on March 2013.

The outcome of this review has helped inform the Council's 10 year plan - Moray 2023, which includes health related priorities such as obesity, smoking, alcohol dependency and oral health. Other priorities focus on improving the life chances of children; supporting adults to live healthier sustainable independent lives; and protecting vulnerable people within the community. The Community Planning Partnership has agreed a series of workshops to define the priority areas and targets as well as focusing on the identification of the resources across the partnership to support the priorities. The Council has yet to undertake health inequality impact assessments although consideration of options available has been presented to the Area Based Review Group.

Major Capital Investment in Councils (March 2013)

The Audit and Performance Review Committee discussed the main points from the MCIC report at a meeting on 8th May 2013.

Three recommendations from the MCIC report have been added to the Council's Corporate Asset Management Plan for 2013/14 as follows:

1. Develop a quarterly profile for the capital plan for 2013/14.
2. Develop a risk register for the capital plan for 2013/14.
3. Develop a policy for post-project review for major capital expenditure

The first two recommendations have been fully implemented in 2013/14 and recommendation 3 is in progress.

The MCIC report has been used by the Council to review its practices relating to asset management generally, including its capital strategy and capital planning arrangements.

Arm's-Length External Organisations: Are you getting it right? (June 2011)

The report was considered and noted at a meeting of the Audit and Performance Review Committee on 1 Feb 2012.

The Council has only one major ALEO arrangement in respect of the Moray Leisure Centre in Elgin. The Council undertook a full options appraisal before establishing the Leisure Centre as a Limited Company in 1992, receives reports on the operation of the Leisure Centre and approves the annual management fee payable to the Centre. Three elected members sit on the Centre's Board of Management. The Council therefore considers there to be clear governance and accountability arrangements in place.

Reporting and Actioning Inspection Reports

We sought to understand the Council's processes for reporting and monitoring of the outcomes of inspection reports from bodies such as Education Scotland and the Care Commission.

We noted that for both inspection reports and education, specific performance indicators have been developed. Namely:

Indicator	Target	2013/14 Value
Percentage of learning communities receiving an evaluation of satisfactory or better in HMIE inspection reports	100%	N/A – no inspections carried out in 2013/14
Percentage of pre-school centres achieving satisfactory or better in HMIE inspection reports	100%	96%
Number of Care Inspectorate reports which contain requirements	Nil	Nil
% of requirements addressed within the stated timescale	100%	N/A – no requirements raised from inspections

The indicators noted above are contained within performance reports which are reported to the Audit and Performance Committee twice yearly. Where inspection reports highlight that actions required, these would be taken forward by the relevant School/ Care facility with validation exercises then being performed by the relevant departments.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised in Appendix 4.

We highlighted these responsibilities when we presented our audit plan to you in March 2014.

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Prevention and detection of fraud and corruption

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Council. These controls include:

- A confidential reporting (whistle blowing) policy;
- A range of financial controls such as segregation of duties and authorisation requirements;
- Policy to combat fraud and corruption;
- Formation of a Corporate Integrity Group in 2014/15;
- Preparation of fraud training for members (materials have been prepared and delivery is planned for 2014/15); and
- Designated fraud officers within the Benefits fraud team.

National Fraud Initiative

The Council has participated in the 2013/14 National Fraud Initiative (NFI) data matching program. This exercise focused on the electoral roll and Council tax recipients of single person discounts. 800 matches were returned in March 2014 and a sample of 10% is currently being reviewed by the corporate fraud team. The Head of Financial Services is the responsible officer for NFI within the Council.

Appendix 1: Action Plan

Action Point Reference	Finding	Management Response/ Responsible Officer/ Due Date
1	<p>We noted a low level of charitable activity across the 38 connected trust funds for which Moray Council is sole trustee and noted that the majority (58%) of trust funds do not have supporting trust deeds. The absence of such deeds which formally document the purpose of each of the Trusts creates the risk that funds could be expended for purposes that do not meet the charitable objects of the Trust. In addition, in the event of a challenge, the Trust may find it difficult to justify expenditure incurred.</p> <p><i>Recommendation:</i> As sole trustee of the 38 of the connected charities, The Moray Council should liaise with the Office of the Scottish Charity Regulator (OSCR) to ascertain whether there is any possibility of rationalising the number of charities and agreeing their overall purpose. This would allow such funds that are available to be used for charitable purposes.</p>	<p>Head of Legal and Democratic Services/ Head of Financial Services.</p> <p>No specific deadline has been agreed – progress is dependent on resources available and is likely to take several years.</p>
2	<p>The Council's Risk Management Strategy has not been updated since 2008. There is a risk therefore that the document does not reflect current practice within the Council.</p> <p><i>Recommendation:</i> Management should review the strategy to confirm it is still fit for purpose and reflects the risk management arrangements currently in operation across the Council.</p>	<p>Internal Audit Manager</p> <p>31 December 2014</p>

3	<p>Audit Scotland’s review of The Moray Community Planning Partnership (CPP) was published in July 2014. The report notes that work needs to continue to implement the proposed performance management framework of the CPP and align resources to its priorities.</p> <p><i>Recommendation:</i> Management should develop an action plan for progressing the findings raised in the review of The Moray CPP. Progress against actions should be monitored and reported regularly.</p>	<p>CMT Confidence ratings due to be completed by November 2014.</p> <p>CPB need to agree timescale for addressing areas with low confidence rating.</p>
4	<p>A reconciliation between the Council’s Council Tax and Non-Domestic rate system to the Assessor’s system has not been performed since October 2012. The absence of such a reconciliation creates a risk that changes to the system in terms of additions and deletions of properties or changes to bandings may not be accurately reflected in both systems</p> <p><i>Recommendation:</i> Management should liaise with the software provider to ensure that the Council Tax/ NDR system has the relevant functionality. These should then be performed annually going forward.</p>	<p>Taxation Manager</p> <p>Ongoing</p>
5	<p>The Council does not have in place a clear timetable for the completion of its data reliability exercise for local indicators.</p> <p><i>Recommendation:</i> We understand that due to resource constraints the commitment to a set timetable may not be currently feasible, but Management should consider whether this exercise is of sufficient priority to commit future resources to ensuring its completion.</p>	<p>Corporate Policy Unit Manager</p> <p>As this exercise will now move to review lower priority indicators there is no detailed timetable or set deadlines but the exercise is expected to be completed by 2016</p>

6	The Council sets itself a local target of publishing quarterly performance information 6 weeks after the quarter ends. We noted that for the 4 quarters of 2013/14 this information was not published until 7-8 weeks after the end of the quarter.	Corporate Policy Unit Manager January 2015
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Recommendation:

The Council should consider the factors which are preventing this target from being achieved and assess whether it is still realistic/achievable

Appendix 2: Letter of representation

Representation letter – audit of Moray Council’s (the Authority) statement of accounts for the year ended 31 March 2014

The Authority is responsible for preparing consolidated statement of accounts in respect of itself and its subsidiary undertakings (together “the group”).

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority and the group give a true and fair view of the state of affairs of the Authority and group as at 31 March 2014 and of the surplus and cash flows of the group for the year then ended have been properly prepared in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

Subsequent references in this letter to “the Statement of Accounts” refer to both the statement of accounts of the authority and the consolidated statement of accounts of the group.

I acknowledge my responsibilities as Head of Financial Services for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the authority and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the statement of accounts.

- Significant assumptions used by the authority and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the statement of accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other matters, including minutes of the authority and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the group from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the authority's and the group's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's and the group's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the group and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the statement of accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the authority and group's statement of accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing statement of accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the authority and the group conducts its business and which are central to the authority's and the group's ability to conduct its business or that could have a material effect on the statement of accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the statement of accounts.

Related party transactions

I confirm that we have disclosed to you the identity of the authority and group's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We confirm that we have identified to you all senior officers and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority and the group participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the authority and the group have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or for the group's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or the group or any associated company for whose taxation liabilities the authority may be responsible.

Retirement benefits

- All retirement benefits that the authority and the group is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority’s and the group’s actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

	North East Scotland Pension Fund
	31 March 2014
Financial assumptions:	
Discount rate	4.4%
Rate of increase in salaries	4.15%
Rate of increase in pensions	2.4%
Rate of Inflation (CPI)	2.4%
Mortality assumptions:	
<i>Longevity at 65 for current pensioners:</i>	
Men	22.5
Women	25.5
<i>Longevity at 65 for future pensioners:</i>	

Men	24.8
Women	27.9
Long-term expected rates of return on:	
Equities	7.0%
Government bonds	3.4%
Other bonds	4.3%
Property	6.2%
Cash/current assets	0.5%
Other	Dependent on type of asset

- The authority participates in the Scottish Teachers' Superannuation Scheme that is a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

The Moray Council

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Assets and liabilities

- The Authority and the group has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the statement of accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority and the group has satisfactory title to all assets and there are no liens or encumbrances on the Authority's and the group's assets, except for those that are disclosed in the statement of accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the statement of accounts.

Using the work of experts

I agree with the findings of the Estates team, experts in evaluating the value of the authority's social housing dwellings, other land and buildings, community assets and surplus assets and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the statement of accounts and underlying accounting records. The authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

I agree with the findings of the Council's actuary Mercer, expert in valuing the Councils share of pension assets and liabilities for its defined benefit scheme. I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Letter of Representation

As minuted by the Council at its meeting on 29 September 2014.

.....

Head of Financial Services

For and on behalf of

Date

Appendix 3: Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

Relationships between PwC and the Authority

We are not aware of any relationships which, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

Fees

Our audit fee for the year ended 31 March 2014 was £247,000. No other fees were receivable from the Council.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee and Performance Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Appendix 4: Risk of Fraud

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

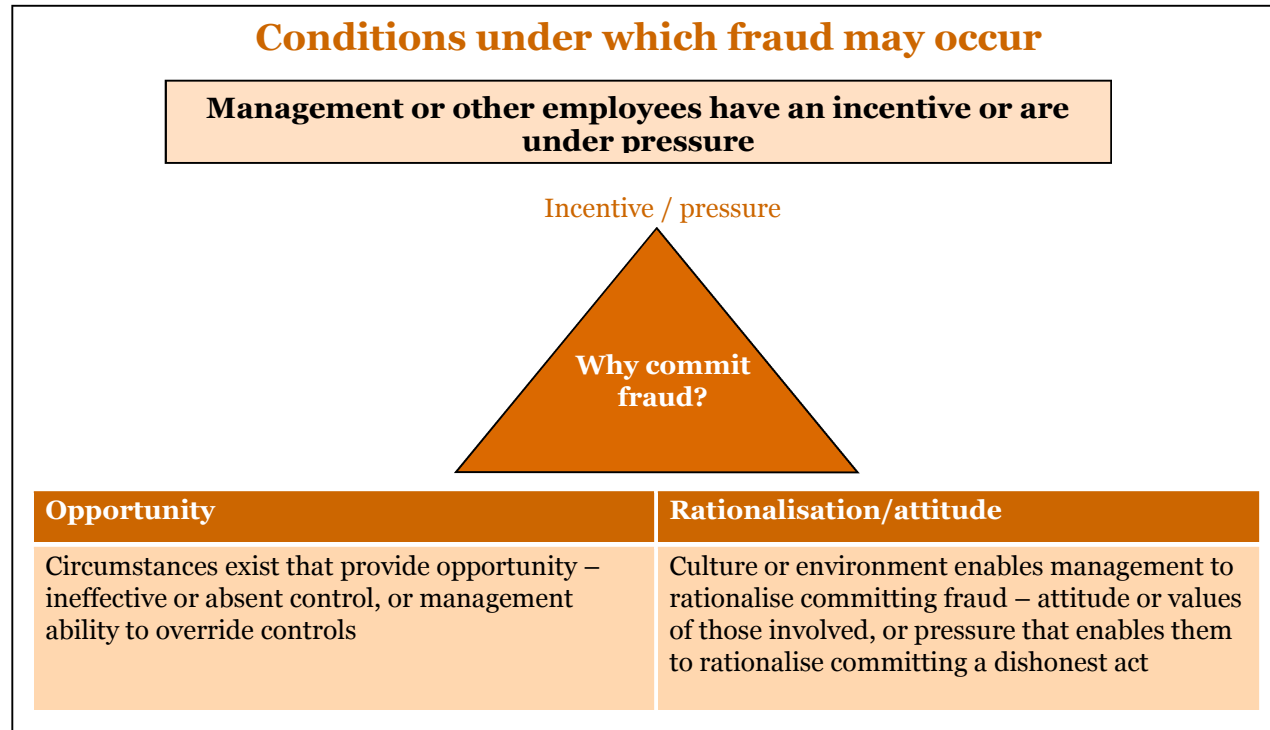
Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.





In the event that, pursuant to a request which The Moray Council has received under the Freedom of Information (Scotland) Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Moray Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and The Moray Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, The Moray Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for The Moray Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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